STATE OF ARIZONA

Joint Committee on Capital Review

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

R E V I S E D

MEETING NOTICE

DATE: Thursday, September 19, 2002

TIME: 1:30 p.m.

PLACE: HOUSE HEARING ROOM 4

TENTATIVE AGENDA

- Call to Order
- DIRECTOR'S REPORT (if necessary).
- Approval of Minutes of August 22, 2002

1. DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS – Review Scope, Purpose, and Estimated Cost of Yuma Armory Project.

2. ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF HEALTH SERVICES – Report on Arizona State Hospital Construction Project.

3. SCHOOL FACILITIES BOARD – Continuation of Presentation on Qwest Contract, Lease-to-Own Financing, and Other School Facilities Board Items.

4. **ARIZONA BOARD OF REGENTS/UNIVERSITY OF ARIZONA – Review of Proposition 301 Lease-Purchase Project.**

The Chairman reserves the right to set the order of the agenda.
9/13/02

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HOUSE OF REPRESENTATIVES

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MINUTES OF THE MEETING
JOINT COMMITTEE ON CAPITAL REVIEW

Thursday, August 22, 2002

The Chairman called the meeting to order at 1:40 p.m. Thursday, August 22, 2002 in House Hearing Room 4 and attendance was as follows:

Members:	Representative Knaperek, Chairman	Senator Solomon, Vice-Chairman
	Representative Cheuvront	Senator Bennett
	Representative Gray	Senator Brown
	Representative Lopez	Senator Cirillo
	Representative Pearce	
	Representative Pickens	
Absent:	Representative Allen	Senator Guenther
		Senator Hamilton
		Senator Verkamp
Staff:	Richard Stavneak	Jan Belisle, Secretary
	Lorenzo Martinez	Jill Young
	Tony Vidale	Jake Corey
	Stefan Shepherd	Jennifer Vermeer
Others:	Patsy Osmon	Senate
	Debbie Johnston	Senate
	Joy Hicks	House
	Jamie Hogue	House
	John Arnold	SFB
	Ed Boot	SFB
	Ronald Korte	DES
	Pat Curtis	DES
	Michael Hunter	ATRA
	Ronald Korte	Energy Systems Design
	Dr. John Haeger	NAU
	Kurt Davis	NAU
	M. J. McMahon	NAU
	David Cain	NAU
	Anne Barton	NAU
	Dave Harris	ABOR
	Rufus Glasper	Maricopa Community Colleges
	Jack Lunsford	Maricopa Community Colleges
	Alan Ecker	Association of Counties
	Kurt Freund	Dain Rauscher

(Continued)

Senator Solomon moved *the Committee approve the minutes of June 20, 2002 as presented.* The motion carried.

DIRECTOR'S REPORT

On behalf of Richard Stavneak, Director, Lorenzo Martinez, JLBC Staff mentioned that at the April JCCR meeting, the Committee approved the purchase of a 2,500 square foot property from the City of Phoenix so that the Arizona Department of Environmental Quality could continue to maintain an air quality monitoring site. The Committee requested the department to report back on the closing costs. The purchase price was $14,600 and the escrow and recording fees were $180. There was an environmental assessment done which was $2,342. The total cost of the transaction was $17,122.

DEPARTMENT OF ECONOMIC SECURITY – Review of Scope, Purpose, and Estimated Cost of Data Center Upgrades.

Stefan Shepherd, JLBC Staff presented the Department of Economic Security (DES) request that the Committee review the scope, purpose and estimated cost of the data center upgrades. DES plans to spend $1,400,000 appropriated from the General Fund in FY 2000 for the upgrades. The primary purpose of the appropriation was to allow DES to replace the Uninterrupted Power Supply (UPS) system at its data center, along with required facility modifications. DES anticipates the total project cost to be $960,674. The remainder of the $1,400,000 appropriation is expected to be available for reversion to the General Fund.

In response to Chairman Knaperek, Mr. Ronald Korte, Electrical Engineer, Energy Systems Design, stated that during the development of the project there was a question as to what the size of the UPS needed to be. The original scope was 1,000 KVA; the existing system is 600 KVA. A report was prepared by another consultant for DES, which looked at worse case loading for the UPS system at the data center. It was concluded that it would be less than the existing 600 KVA system that is installed at the present time. Rather than go with the larger system, it was a way to save money.

Senator Solomon moved *the Committee give a favorable review to the scope, purpose, and estimated cost of the data center upgrades, and requested that any unspent monies revert to the General Fund when the project is completed.* The motion carried.

ARIZONA BOARD OF REGENTS/NORTHERN ARIZONA UNIVERSITY – Consider Approval of Revised Scope, Purpose, and Estimated Cost of Bond Projects.

Jill Young, JLBC Staff, presented the Northern Arizona University request that the Committee review the scope, purpose and estimated cost of bond projects. The Committee at the October 2001 meeting approved these projects, in a different form. The differences come from the detailed engineering studies that were done after the original approval and a change in objective and goals on the campus. The projects include the communications building renovation, modular swing space, gateway student success center, and campus infrastructure upgrades.

In response to Representative Pickens, Ms. Young stated that NAU was appropriated $4 million from the General Fund to offset the loss of tuition and fees which will be used to make the annual debt service payments on the bonds.

In response to Senator Cirillo, Dr. John Haeger, President, NAU stated that some of the infrastructure problems were worse than anticipated. An engineering study was done to look at all the projects in detail. More monies have been put towards some of the projects than originally planned.

In answer to Representative Gray, Dr. Haeger stated that the engineering firms are familiar with the high altitude and freeze-thaw issues that have created the existing problems with the campus infrastructure and buildings.

Senator Brown moved *the Committee approve the issuance of $31,700,000 in revenue bonds for the Communications Building Renovation, Modular Swing Space, Gateway Student Success Center, and Campus Infrastructure Upgrades.* The motion carried.

(Continued)

MARICOPA COMMUNITY COLLEGE DISTRICT – Review of Bond Projects.

Jill Young, JLBC Staff, presented the Maricopa Community College District request that the Committee review the two district projects to be financed by revenue bonds. The two projects represent revenue bond issuances totaling $14,820,000 and will be issued in October 2002. Of the total amount, $6,650,000 will fund a Performing Arts Center (PAC) at South Mountain Community College and $8,100,700 will fund a new Student Information System (SIS). The repayment for the Performing Arts Center will be over a 20-year period and the repayment for the Student Information System will be over an 8-year period.

In response to Senator Cirillo, Ms. Young said the Performing Arts Center would also be available to the surrounding communities.

In response to Representative Pickens, Ms. Young stated that there is no statutory or constitutional limit on revenue bonds. General obligation bond issuances must be approved by voters.

In response to Representative Pickens, Lorenzo Martinez said that the collateral on a revenue bond is the revenue stream that is identified to pay back that bond. For these projects, the revenue stream would be the tuition and fees that are being collected. The individuals that purchase a bond will have first lien on the tuition stream. As tuition comes in they are guaranteed to be paid first.

Senator Bennett asked if each Community College within the state purchase its own SIS system and software or does the state buy the software license agreement to be shared between the colleges. Ms. Young stated that each individual college would purchase their own needs.

Ms. Young said that the districts currently have outstanding revenue bonds in the amount of approximately $10 million. The district plans to add PACs to other community colleges and will finance them in the same way.

In response to Senator Bennett, Rufus Glasper, Director of Financial Services, Maricopa Community Colleges stated that there are currently revenue bonds in the amount of $10 million outstanding which were issued in 1984. These were refinanced in 1995 and are expected to be paid off by 2004-2005. The funding is currently in place for these projects and no increase is expected at this time. There are approximately $250 million in General Obligation bonds outstanding.

In response to Representative Knaperek, Mr. Glasper stated that the increase in fees occurred 2-1/2 years ago. Relative to this, the funding is in place and no additional fees will be requested for these projects.

Representative Knaperek asked if there was a plan for cost sharing on the PAC with the other parties. Mr. Glasper stated that there is not a formal cost sharing plan in place. There are fee structures that are in place for rental of the facilities.

In response to Senator Solomon, Mr. Glasper stated that South Mountain Community College has had a face-lift and the Performing Arts Center would add major programs.

Michael Hunter, Arizona Tax Research Association (ATRA) stated that ATRA has not reviewed this proposal. Revenue bonds are typically used for relatively small projects. Revenue bond projects have been increasing over time and the question that should be asked is whether the project would have passed had it gone to public vote. These are projects that are not voter approved and is something that you would expect voters to have a voice if it were tied to a property tax. What has occurred in some instances, is where the tuition or fees or revenue stream that is intended to pay the debt service on this leaves a hole in the budget. Fees that would have gone towards something else are now going toward the debt service on the revenue bonds and then property tax increases occur within the levy limits that would not have perhaps happened had it not been for the hole in the budget created by the debt stream. More and more technology is being funded and technology very often has a very short shelf life.

In response to Representative Knaperek, Mr. Martinez mentioned that the payback period for the SIS is eight years. In the past, recommendations on capital projects, especially IT projects are partially based on the length of the payment period versus the life of the equipment. With the computer technology today, it does become obsolete quickly, however, this system will last a number of years and the structure is similar to the Human Resources Information System that the state is financing with Certificates of Participation.

(Continued)

In response to Representative Knaperek, Mr. Glasper stated this project was a revenue generating facility. Revenue bonds are commonly used for student unions, bookstores, and performing arts centers in colleges and universities across the country. Under statute, it is appropriate that general obligation bonds could be used. It was more appropriate that revenue generated bonds be used. This plan has been in place for the last seven years and has the support of the board and students.

Representative Pearce expressed concern regarding using revenue bonds and how costly they could be.

Senator Solomon moved the Committee give a favorable review to the issuance of $14,820,000 in revenue bonds for the financing of the Performing Arts Center at South Mountain Community College and the new Student Information System. The motion carried.

SCHOOL FACILITIES BOARD – Presentation on New Qwest Contract and Status of Lease-to-Own-New School Construction Financing.

Jake Corey, JLBC Staff, informed the Committee that the School Facilities Board (SFB) was presenting 1) the revised networking and internet connectivity contract with Qwest, and 2) the board's current status and future plans for implementing lease-to-own financing for new school construction. On August 1, 2002, the SFB approved a new funding level of $141 million for a new contract with Qwest. With the approval of the new funding level, the board has approved deficiency funding expenditures of approximately $165 million above and beyond the amount of funding that has been provided for the program.

Ed Boot, Director, School Facilities Board, presented a step by step overview of the Networking and Internet Connectivity Project.

The original contract provided $100 million to wire schools, but was operated on a pay-as-you-go basis. An Auditor General report indicated that the SFB appeared to have not had a clear understanding of all the technology issues involved with this project, did not know what already existed in schools and did not have enough day-to-day controls on what Qwest was doing. In May 2002, Qwest reported it had obligated more than the $100 million approved by the SFB and would therefore suspend all work activities. Qwest estimated a final project cost of $180.5 million. In July 2002, the SFB responded to Qwest with a counter-proposal that addressed all of Qwest Communications clarifying points and conditions, and provided a "Lump Sum" contract of $140.7 million for all sites (estimated at 1,445), which included the 154 e-rate schools. The parties reached an "agreement in principle" that clarified the scope of work, addressed each party's concerns, and would complete Internet connectivity in all Arizona school sites (including the 154 e-rate schools) with a completion date of June 30, 2003 (a 5 month delay from the original Qwest timeframe). This agreement would supersede all previous agreements and provide for a Lump Sum contract price of $140,768,000 that will be billed at a standard price of approximately $97,000 per school.

In response to Representative Gray, Mr. Boot stated if a district's equipment was adequate, then it was possible that much of the equipment would continue to be utilized and be supplemented with new equipment. If the equipment did not meet the new guidelines, it would be removed.

Senator Cirillo asked about the responsibilities that Qwest had in the original contract and the three items not included in the new contract: will be not required to monitor schools; does not include a maintenance provision, and non-educational space will not be wired. Mr. Boot stated that the three issues should not have occurred. The network monitoring and the maintenance are worth approximately $21 million. Excluding the non-educational spaces reduces the total number of sites from 1,445 to 1,413. The non-educational spaces are worth approximately $300,000.

In response to Representative Lopez, Mr. Boot stated that the $3 to $8 million cost of e-rate schools was an estimate from data that had been collected from schools that had been completed. In the new agreement the e-rate schools are included. The e-rate funding comes to the district from the Federal Government. The SFB will award the district SFB monies and Qwest receives no dollar amount from the district.

(Continued)

Mr. Boot stated that there is a 90 day warranty on parts and labor by Qwest on all equipment that is installed. There is a manufacturers warranty on all equipment by the original equipment manufacturer, and there is a cable warranty for 15-years on all the wiring that is installed at the schools. What they were providing in the original contact was an extended maintenance warranty beyond the 90-days and beyond the original manufacturer that if anything broke within 3 years, they would fix it.

In response to Senator Solomon, Mr. Boot stated that the schools may provide extra insurance if they so choose. The price for the network monitoring is $235 per school.

In response to Senator Bennett, Mr. Boot said that when the 154 schools receive all the e-rate monies, the SFB would still spend $7 million above that amount to bring them to standard. There are 598 schools completed, 450 fully designed and ready to be cabled, 66 schools are cabled and ready for the equipment. There are also 200 plus schools that have been surveyed but without design.

Senator Bennett asked for a breakdown of the work in process of the 1,400 schools.

Representative Knaperek tabled continuation of the discussion and the lease-to-own presentation until the September meeting.

John Arnold, School Facilities Board, announced that he will be staying with the School Facilities Board staff, and would not become director of the Office of Strategic Planning and Budgeting.

No Committee action was required.

The meeting adjourned at 3:10 p.m.

Jan Belisle, Secretary

Lorenzo Martinez, Senior Fiscal Analyst

Representative Laura Knaperek, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams.

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HOUSE OF REPRESENTATIVES

DATE: September 11, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Steve Grunig, Fiscal Analyst

SUBJECT: DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS - REVIEW OF SCOPE, PURPOSE AND ESTIMATED COST OF YUMA ARMORY PROJECT

Request

Pursuant to A.R.S. § 41-1252(C), the Department of Emergency and Military Affairs (DEMA) requests that the Committee review its plan to spend $371,000 appropriated from the General Fund to DEMA in FY 2002 for construction of an Army National Guard training and community center in Yuma.

Recommendation

The JLBC Staff recommends a favorable review of the request. DEMA anticipates a total project cost of $2,868,900. The project is funded with a $371,000 General Fund appropriation and the remaining $2,497,900 will consist of $1,731,125 from the federal government, $150,000 from the City of Yuma, $216,775 from the sale of closed armories, and $400,000 from the sale of armory property to the City of Yuma.

Analysis

Laws 2001, Chapter 311, made a FY 2002 appropriation of $371,000 from the General Fund to DEMA for construction of an Army National Guard training and community center in Yuma. A.R.S. § 41-1252(C) requires that the Committee review the scope, purpose and estimated cost of this project.

The present National Guard facility in Yuma is 42 years old and would require renovation in order to continue being used. The current facility was built to serve 48 soldiers, rather than 100 soldiers that will use the new facility. The current facility is also becoming surrounded by redevelopment projects along the Colorado River and the armory does not fit with future plans for the area. The proposal would relocate the armory to a 5 acre site adjacent to Arizona Western College. The City of Yuma would

(Continued)

acquire the 2.88 acre site where the current armory is located and lease the new location to the National Guard over 70 years for $1 a year. The city will pay DEMA $400,000 to acquire the old armory property. The City of Yuma plans to use the new facility for community activities when it is not being used by the National Guard.

Under DEMA's proposed plan, the department would construct a 19,683 square foot Training and Community Center. The primary purpose of the facility is to serve as a 100 soldier armory. The facility has a multi-purpose design which makes it suitable as an armory and also allows a variety of community events to be held there. The facility will also provide space for state and federal required disaster recovery operations.

Federal guidelines require the State to provide the land, site preparation and to match at least 25% of armory construction costs. The contribution of each party is shown below. Partial funding comes from the State Armory Property Fund which received proceeds of the sale of the Bisbee armory and part of the armory land at the Silverlake armory in Tucson.

Cost parties	Contribution	% of Total
Federal	$1,731,125	60.4%
City of Yuma	$ 150,000	5.2%
State		
FY 02 Appropriation	$ 371,000	12.9%
Sale of Closed Armories	$ 216,775	7.6%
Sale of Yuma Armory	$ 400,000	13.9%
Total State Share	$ 987,775	34.4%
Total Project Cost	$ 2,868,900	100%

As the proposed project is consistent with the intent of the appropriation and the cost appears reasonable as compared to the national average for similar facilities, the JLBC Staff recommends that the Committee give a favorable review.

RS/SG:jb

DATE: September 11, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION/ DEPARTMENT OF HEALTH SERVICES - REPORT ON THE ARIZONA STATE HOSPITAL CONSTRUCTION PROJECT

Request

Pursuant to Laws 2000, Chapter 1, the Arizona Department of Administration (ADOA) and the Department of Health Services (DHS) are providing a quarterly status report on the Arizona State Hospital (ASH) demolition and construction project.

Recommendation

This item is for information only and no Committee action is required. The adolescent facility is now occupied, as is a clinical administration building. Construction activity is continuing on the new civil hospital, and infrastructure activities are on-going.

Analysis

<u>Background</u>
Laws 2000, Chapter 1, as amended by Laws 2000, 7th Special Session, Chapter 1, and Laws 2002, 2nd Special Session, Chapter 3, appropriated $77.5 million from the Budget Stabilization Fund over 4 years for the demolition, construction and renovation of ASH. ADOA is to use the appropriations to provide at least 176 new civil beds at ASH, and to renovate and expand existing facilities to address physical plant needs for civil and forensic populations, an adolescent unit, and sexually violent offenders. The legislation also created the Arizona State Hospital Capital Construction Commission and charged them with reviewing capital construction and renovation plans at ASH for the purpose of making recommendations to ADOA and JCCR. ADOA and DHS are required to report at the end of each quarter to the Committee on the status of the ASH project. This report represents the eighth of these quarterly reports.

(Continued)

Quarterly Update and Status Report

The table below presents the amounts ADOA and DHS have budgeted for each portion of the ASH demolition and construction project.

	Proposed Budget By Project
SVP Program	$ 5,869,200
Civil Hospital and Adolescent Facility	45,037,700
Sitework/Tunnels/Telephone/Data	12,364,900
Forensic Hospital	12,685,000
Contingency	1,543,200
TOTAL	**$77,500,000**

The Committee favorably reviewed an expenditure plan for construction of 2 new 60-bed dormitories for the Sexually Violent Persons (SVP) program using the Inmate Construction program. Both dormitories are now complete.

The Committee has also favorably reviewed an expenditure plan to address infrastructure issues at ASH, including telecommunications expansion, repair of sewer lines, repairs to address water temperature control issues, as well as Central Plant repairs. Infrastructure rerouting is now about 98% complete. ADOA has completed all Central Plant upgrades.

Building shells are in place for all planned buildings. ADOA completed the adolescent facility in July, and patients began occupying the facility on July 16, 2002. Completion of the new civil facility is scheduled for the late fall of 2002, with patient occupancy planned for mid-December.

In August of 2001, JCCR favorably reviewed an expenditure plan for the renovation of Cholla Hall for use as a support building for the SVP program. Renovation of this facility is underway and is scheduled for completion in January of 2003.

At its June meeting, the Committee favorably reviewed the expenditure plan for the renovation of the forensic hospital. ADOA is proceeding with work on the forensic hospital renovation. Abatement of the Juniper building is now underway.

RS/GG:jb

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HOUSE OF REPRESENTATIVES

DATE: September 11, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – CONTINUATION OF PRESENTATION ON QWEST CONTRACT, LEASE-TO-OWN FINANCING, AND OTHER SCHOOL FACILITIES BOARD ITEMS

At the request of the Chairman of the Committee, the School Facilities Board (SFB) was to give a presentation at the August, 2002 Committee meeting on 1) the revised networking and internet connectivity contract with Qwest, and 2) the board's current status and future plans for implementing lease-to-own financing for new school construction. Though the Committee heard the presentation on the Qwest contract, discussion of the item was not concluded at the meeting, and is therefore to be continued at the September, 2002 meeting. The presentation on lease-to-own financing was not heard during the August, 2002 meeting, but was also delayed until the September, 2002 meeting.

In addition, the School Facilities Board (SFB) is reporting its plans to transfer $113 million from the Deficiencies Correction Fund to the New School Facilities Fund. The purpose of the transfer is so that the board may continue to fund new construction costs until the time it receives financing from any lease-to-own agreements. Proceeds from the lease-to-own financing agreements will be used to reimburse the Deficiencies Correction Fund.

A.R.S. § 15-2002(L) grants SFB the authority to temporarily transfer monies between funds if 1) the transfer is necessary to avoid a temporary shortfall in the fund into which monies are transferred, 2) the transferred monies are restored to the originating fund as soon as the temporary shortfall in the other fund has been addressed, and 3) SFB reports to the Committee the amount of and reason for any monies transferred.

Laws 2002, Chapter 330 replaced "pay-as-you-go" financing for new school construction in FY 2003 with lease-to-own financing. The board is authorized to enter into lease-to-own agreements of a maximum of $400 million in FY 2003. The board reports that, while the authorized amount is sufficient to cover new construction costs in that year, the agreements will not be completed until January, 2004. Since the New School Facilities Fund currently has a balance of about $10 million, and the fund averages a weekly distribution to school districts of about $7 million, SFB does not have enough cash on hand to fund the costs of new construction over the next 4 months. Therefore, the board plans to temporarily transfer $113 million from the Deficiencies Correction Fund to the New School Facilities Fund. The transfer will leave the Deficiencies Correction Fund with a balance of about $2 million. Once SFB has received financing for the lease-to-own agreements, the board will reimburse the Deficiencies Correction Fund.

RS/JC:jb

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DATE: September 16, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Senior Fiscal Analyst

SUBJECT: ARIZONA BOARD OF REGENTS/UNIVERSITY OF ARIZONA - Review of Proposition 301 Lease-Purchase Project

Request

The University of Arizona (UofA) requests Committee review of the Meinel Optical Sciences Expansion Project. The project will be financed with a Certificates of Participation issuance of $17,200,000.

Recommendation

The JLBC Staff recommends a favorable review of the request. Project costs appear reasonable given that a significant amount of new laboratory space will be constructed or renovated.

The $17,200,000 COP issuance will be repaid using Proposition 301 monies (68%) and Indirect Cost Recovery Fund monies (32%) over a period not to exceed 25 years. The JLBC Staff estimates an average annual debt service payment of $1,220,000 (at a 5% interest rate over 25 years). Given that neither the Proposition 301 nor Indirect Cost Recovery Fund monies have a direct impact on the General Fund, financing for this project does not affect the current budget shortfall.

Analysis

A.R.S. § 15-1682.01 requires Committee review of university related lease-purchase projects.

The project will expand the existing Meinel Building by 47,267 gross square feet (GSF) and renovate 8,407 GSF of existing space. The project will add and renovate classroom and study space, class and research laboratories, meeting space, and office space. The following table lists the major components of the project.

Professional Fees	$ 2,033,000
Project/Facilities Management	$ 395,500
Site Development	$ 828,000
Construction/Renovation Costs	$ 10,175,000
Fixtures, Furniture and Equipment	$ 1,086,000
Other	$ 1,349,000
Contingencies	$ 1,333,500
TOTAL	**$17,200,000**

(Continued)

The project will be financed with a $17,200,000 COP issuance. Repayment of the issuance will be funded from UofA's allocation of Proposition 301 monies (68%) and Indirect Cost Recovery Fund monies (32%). The Indirect Cost Recovery Fund receives revenue from all other funded programs that receive benefit from the campus capital infrastructure. The JLBC Staff estimates the annual debt service on the COP issuance to be $1,220,000 (based on a 5% interest rate over 25 years).

Proposition 301 allocated a portion of the increase in the Transaction Privilege Tax to the Arizona Board of Regents to fund technology and research initiatives related to the New Economy. Monies are deposited in the Technology and Research Initiative Fund (TRIF). Proposition 301 allows up to 20% of the TRIF monies to be used for capital projects, including debt service.

The UofA has been allocated $1,000,000 from Proposition 301 monies for the capital component of the UofA Optical Science and Technology Initiative. The UofA has also been allocated $3,500,000 for operating expenses associated with the initiative. The UofA initiative will focus on development of programs related to photonics, imaging and sensors, and astronomical instruments and large telescopes.

The UofA estimates operating costs associated with utilities, maintenance personnel, and other operating costs will increase by $453,200 when the project is complete. These costs will also be funded from Proposition 301 allocations.

RS/LM:jb